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78th Annual Report
of
Chief Consolidated
Mining Company

FOR THE YEAR ENDED
D E C E M B E R
T H I R T Y - F I R S T
NINETEEN HUNDRED
AND EIGHTY SIX

Including 1986 Annual Report on Form 10-K
as filed with the Securities and Exchange Commission

RECEIVED
JUN 15 1987

DIVISION OF
OIL, GAS & MINING

Chief Consolidated Mining Company

General Mining Offices: Eureka, Utah 84628

Executive Offices: 866 Second Avenue, New York, N.Y. 10017

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COMMON STOCK

<u>1987 Market Price</u>	<u>High</u>	<u>Low</u>
First Quarter	8 $\frac{1}{8}$	6 $\frac{3}{8}$
Second Quarter (through May 31)	10 $\frac{1}{8}$	8
<u>1986 Market Price</u>		
First Quarter	6 $\frac{1}{8}$	5 $\frac{1}{8}$
Second Quarter	6 $\frac{7}{8}$	5
Third Quarter	5 $\frac{5}{8}$	4 $\frac{3}{4}$
Fourth Quarter	6 $\frac{1}{8}$	4 $\frac{3}{4}$
<u>1985 Market Price</u>		
First Quarter	7 $\frac{1}{4}$	4 $\frac{1}{4}$
Second Quarter	5 $\frac{7}{8}$	4 $\frac{3}{4}$
Third Quarter	5 $\frac{3}{4}$	5
Fourth Quarter	7 $\frac{1}{4}$	5 $\frac{1}{8}$

* The principal market is the Pacific Stock Exchange. Ticker Symbol: CFCP. The common stock is also listed on NASDAQ. Ticker Symbol: CFCM.

PREFERRED STOCK

Due to the relatively few shares outstanding (1986—8,637, 1985—8,837), a price for the preferred stock is occasionally quoted on the O-T-C market. The Company maintains an open offer to preferred shareholders to exchange their preferred stock for common stock on a share for share basis.

OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

Chief Consolidated Mining Company:

We have examined the consolidated financial statements and supplemental schedules of Chief Consolidated Mining Company and consolidated subsidiary, listed in Item 8 herein. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of the companies at December 31, 1986 and 1985 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, such supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

Deloitte Haskins + Sells

March 20, 1987

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year
ended December 31, 1986

Commission file number 1-1761

CHIEF CONSOLIDATED MINING COMPANY

(Exact name of Registrant as specified in its charter)

ARIZONA

(State or other jurisdiction of
incorporation or organization)

87-0122295

(I.R.S. Employer
Identification No.)

866 Second Avenue, New York, N. Y.

(Address of principal executive offices)

10017

(Zip Code)

Registrant's telephone number, including area code

212-688-8130

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class

Name of each exchange on
which registered

Common stock, \$0.50 par value

Pacific Stock Exchange

NASDAQ

Securities registered pursuant to Section 12 (g) of the Act:

None

(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 12 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X. No .

State the aggregate market value of the voting stock held by non-affiliates of the Registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing: \$23,307,148 as of March 3, 1987.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

Class

Outstanding at March 3, 1987

Common stock, \$0.50 par value

3,214,779 shares

the \$100,000 advance royalty for 1987. Advance royalties will be credited against future earned royalties on a formula basis as defined in the lease. See "Payments Related to Sunshine's Burgin Lease", below.

Earned Royalties - At such time that commercial production is begun by Sunshine, Registrant is to receive the greater of: (i) 7-1/2% of Sunshine's annual net smelter returns from production or (ii) \$150,000 per annum. See "Payments Related to Sunshine's Burgin Lease", below.

Minimum Work Requirements - Sunshine is required to perform annual minimum work requirements of \$100,000 on the leased property until such time as commercial production is begun. Amounts expended by Sunshine for such purpose in excess of \$100,000 in any year can be carried forward and applied against a subsequent year's work requirement. Sunshine has reported to Registrant that it has fulfilled its work requirements to date.

Payments Related to Sunshine's Burgin Lease - Under the terms of the June 1978 amendment to the Unit Lease, described below, so long as the Unit Lease remains in effect, Registrant is obligated to pay to Registrant's co-lessors under the Unit Lease, an amount equal to one-third of Registrant's royalties received under Sunshine's Burgin Lease. Such obligation arose as a result of the removal of a portion of Registrant's property, including the Burgin Mine, from the Unit Lease and its return to Registrant in 1978. The said co-lessors at the time retained a royalty interest in the property and became entitled to receive an amount equal to one-third of any royalties that would become payable to Registrant under any new leasing arrangement for Registrant's Burgin property so long as the Unit Lease remains in effect.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Current Activities of Lessee", for a description of Sunshine's current activities on Registrant's Burgin property.

Unit Lease

In June 1983, Sunshine, by purchase, became the lessee under the Unit Lease. Under the original Unit Lease, Registrant, together with four other co-lessors, had leased a total of 10,711 acres to Kennecott, including 4,733 of Registrant's acres. In April 1983, Kennecott sold its interest as lessee in the Unit Lease to HMC Mining, Inc. and in June 1983, Sunshine acquired HMC Mining, Inc.

The Unit Lease property is located in the East Tintic Mining District of Utah. On June 15, 1978, 1,387 acres owned by Registrant that comprised a part of the properties under the Unit Lease were removed by amendment to the lease and returned to Registrant. These properties, referred to as the Burgin properties, were leased by Registrant to Sunshine on October 15, 1980, as is more fully described above. On October 26, 1982, the Unit Lease was further amended by the removal and return to Registrant of an additional 2,013 acres of Registrant's Homansville area properties that had been included in the Unit Lease. There now remains 7,311 acres that are subject to the terms of the Unit Lease, of which 5,050 are owned or controlled by Registrant. Included in the 5,050 acre total are 3,185 acres acquired from AMAX Arizona Inc. ("AMAX") in 1985 and 532 acres under lease from the State which were assigned to Registrant by AMAX in 1985. Under the provisions of the amendments to the Unit Lease, Registrant's remaining co-lessor under the Unit Lease continues to retain a 22.2% royalty interest in the Burgin and Homansville properties so long as the Unit Lease continues in effect.

The Unit Lease, as currently in effect, includes provisions for the following:

Term - The term of the Unit Lease is to 2006 unless sooner terminated by Sunshine. Sunshine has the right to renew for an additional fifty years to 2056.

Royalties - Monthly earned royalties payable by Sunshine to the lessors are 7-1/2% of Sunshine's monthly net smelter returns from the Unit Lease property. If in any year Sunshine's net smelter returns exceed \$25 million, the royalty percentage will be increased to 10% of net smelter returns for such year (the "additional royalty"). Registrant's share of the said 7-1/2% and 10% earned royalties, including the increase resulting from Registrant's acquisition of AMAX's share in October, 1985, is as follows:

- (1) With respect to net smelter return royalties attributable to ore mined from Registrant's property, Registrant receives 77.3% of the overall royalty (equivalent to 5.8% of Sunshine's net smelter returns, or 7.7% if the 10% royalty is applicable).
- (11) With respect to net smelter return royalties attributable to ore mined from the property of the co-lessors, Registrant receives 54.6% of the royalty (equivalent to 4.1% of Sunshine's net smelter returns, or 5.4% if the 10% royalty is applicable).

Under an agreement dated October 1, 1982, Registrant and its co-lessors under the Unit Lease agreed to a redivision of royalties between them if royalties payable by lessee under the Unit Lease during a lease year do not exceed \$56,000.

If such redivision provision is applicable, Registrant's share of said annual royalty is to be scaled down depending upon the amount of the total royalties. The maximum possible reduction in Registrant's royalty income in any single year is \$6,000.

On October 4, 1985 AMAX sold all of its Tintic District property holdings and interest to Registrant. Under the agreement Registrant was assigned any amounts due AMAX from Registrant's Unit Lease co-lessor South Standard Mining Company ("South Standard") arising from a prior agreement between those companies. As a result of the latter agreement, Registrant will receive 16.5% of South Standard's royalty income over the next several years, the period being dependent upon the date of resumption of mining at the Trixie Mine. In no case, however, is Registrant entitled to such share of South Standard's royalties after April 30, 1993.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Current Activities of Lessees", for a description of Sunshine's current activities on the Unit Lease properties.

WESTERN LEASE

Under a Mining Lease and Agreement dated December 29, 1986 between the Registrant and Western, Registrant leased to Western the underground mining rights to approximately 5,000 acres of Registrant's property located in the Main Tintic Mining District of Utah.

The property leased to Western was formerly leased to Asarco Inc. ("ASARCO") between 1979 and 1984 at which time Asarco relinquished its lease and returned the property to Registrant.

The principal terms of Western's Lease are as follows:

Term - Initial term of the lease is for twenty-five years to 2011 with right of renewal by Western for an additional twenty-five years. Western at any time during the term of the lease may terminate the lease upon notice to Registrant.

Advance Royalties - Advance royalty of \$55,000 per annum to be paid by Western to Registrant until such time as commercial production begins. In December 1986, Western paid to Registrant the \$55,000 advance royalty for 1987. Advance royalties will be credited against future earned royalties on a formula basis as defined in the lease.

Earned Royalties - At such time that commercial production is begun by Western, Registrant is to receive the greater of (i) a percentage of Western's annual net smelter returns from production scaled between 4% and 7-1/2% (depending upon the average silver price during the month to which the royalty payment relates) or (ii) \$100,000 per annum.

Minimum Work Requirements - Western is required to perform annual minimum work requirements of \$200,000 on the leased property or immediately adjacent property involved in the same project until such time as commercial production is begun. Amounts expended by Western for such purpose in excess of \$200,000 in any year can be carried forward and applied against a subsequent year's work requirement. The initial year of Western's \$200,000 minimum work requirement commenced January 1, 1987.

Termination of Mine Dumps and Mill Tailings Lease - The mining rights covered by the lease to Western include mine dumps and mill tailings formerly leased by Registrant to Diamond Bullion Corporation ("Diamond Bullion") under a lease dated May 15, 1985. Concurrent with the lease agreement between Western and Registrant on December 29, 1986, the Diamond Bullion lease was cancelled.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Current Activities of Lessees", for additional information concerning the Western lease.

Item 2. Properties

See "Item 1. - Business" for description of Registrant's properties located in the Tintic Mining District, Juab County, Utah and Registrant's mining leases with Sunshine and Western. See "Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations - Current Activities of Lessees".

As a result of the removal of the Burgin properties from the Unit Lease and their return by Kennecott to Registrant in July 1978, Registrant owns the concentrator and other assets

built or placed by Kennecott on Registrant's property. The concentrator was used by Kennecott to process silver, lead and zinc ores mined by Kennecott from the Burgin Mine during the years 1967 to 1978. In 1984, Sunshine completed its renovation of Registrant's concentrator which has a current milling capacity of 1,200 tons of ore per day and can be used to process precious metals and basic metals production.

Registrant retains the surface rights to its leased properties which are not required by the lessee for mining purposes. Registrant estimates that these surface holdings include approximately 5,000 to 6,000 buildable acres. However, there is no present demand for unimproved real estate in the area at this time.

Significance of Leases

Registrant anticipates that the income derived from its leases with Sunshine and Western will constitute substantially all of Registrant's sources of income during the years ending December 31, 1987 and 1988. Registrant receives advance royalties under Sunshine's Burgin Lease, earned or minimum royalties under Sunshine's Unit Lease and advance royalties under Western's lease. Accordingly, the development of the properties by Sunshine and Western under their respective leases is significant to Registrant. See "SUNSHINE LEASES" and "WESTERN LEASE", above, for information concerning the leases.

Item 3. Legal Proceedings

None.

Item 4. Submission of Matters to a Vote of Security Holders

- (a) A special Meeting in lieu of Annual Meeting of Shareholders of Registrant was held on December 9, 1986. Proxies for the meeting were solicited pursuant to Regulation A of the Securities Exchange Act of 1934.
- (b) At the aforesaid December 9, 1986 Shareholders Meeting, the shareholders acted upon the following proposals in addition to the election of directors and the selection of accountants:

Approved and ratified nonqualified stock options granted to the four directors of Registrant, Registrant's directors having been granted nonqualified options by the Board of Directors on May 8, 1986 for the following number of shares: James Callery and Bradbury K. Thurlow - 40,000 shares each; Edward R. Schwartz and Leonard Weitz - 20,000 shares each. At the Shareholders Meeting 2,555,586 shares were voted in favor of the options, 153,809 shares against.

PART II

Item 5. Market for the Registrant's Common Stock and Related Shareholder Matters

The principal market on which Registrant's shares of common stock are traded is the Pacific Stock Exchange.

High and Low Sales Prices of Registrant's Common Stock on the Pacific Stock Exchange For Each Quarterly Period During the Past Two Years are as follows:

<u>1986 Market Price</u>	<u>High</u>	<u>Low</u>
First quarter.....	6-1/8	5-1/8
Second quarter.....	6-5/8	5
Third quarter.....	5-5/8	4-3/4
Fourth quarter.....	6-5/8	4-3/4

1985 Market Price

First quarter.....	7-1/4	4-1/4
Second quarter.....	5-7/8	4-3/4
Third quarter.....	5-3/4	5
Fourth quarter.....	7-1/4	5-1/8

Approximate number of holders of record of Registrant's common stock as of March 3, 1987..... 3,000

Item 6. Selected Financial Data

	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>
Royalties..... \$	122,200	\$ 152,226	\$ 204,826	\$ 191,342	\$ 238,269
Total revenue...	142,997	170,140	226,633	198,546	244,816
Net loss.....	(274,321)	(192,760)	(125,125)	(161,495)	(95,124)
Loss per share..	(.09)	(.06)	(.04)	(.05)	(.03)
Total assets....	2,603,654	2,813,383	2,399,418	2,328,152	2,395,058
Long-term liabilities...	-0-	-0-	-0-	-0-	-0-

No dividends were declared during the five year period ended December 31, 1986.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL CONDITION

The ratio of Registrant's current assets to current liabilities as at December 31, 1986 was 6 to 1. Registrant anticipates that net revenues from its current mining leases, together with its working capital, will provide sufficient

liquid funds to enable Registrant to pay its operating expenses during 1987 and 1988. Each of Registrant's mining leases with Sunshine and Western provides that the lessee may, upon short notice, terminate the mining lease. Therefore, Registrant's liquid position and its ability to meet its operating expenses in the future would be adversely affected if either of the Sunshine Leases or if the Western Lease were terminated. See "Current Activities of Lessees" below for a description of the activities now being conducted by Sunshine and Western on the leased properties.

RESULTS OF OPERATIONS

During the year ended December 31, 1986, Registrant's royalties were \$122,200 as compared to royalties of \$152,226 during the year ended December 31, 1985. Included in the royalties for the years ended December 31, 1986 and 1985 were advanced royalties of \$100,000 under the Sunshine Burgin Lease. Also included in Registrant's royalties during the year ended December 31, 1986 was \$325 representing Registrant's share of earned royalties under the Unit Lease as compared to \$45,141 received during the year ended December 31, 1985 under the Unit Lease.

Registrant's net loss for the year 1986 was \$274,321 as compared to a net loss of \$192,760 for the year 1985. The increased loss during 1986 was due primarily to the decrease in royalty income during the year 1986 as compared to 1985 and surface exploratory drilling costs during the year 1986 not incurred in 1985.

Registrant's net loss for the year 1985 was \$192,760 as compared to a net loss of \$125,125 for the year 1984. The increased loss during 1985 was due primarily to the decrease in royalty income during the year 1985 as compared to 1984.

CURRENT ACTIVITIES OF LESSEES

The following is (i) a summary of the latest developments at the properties in which Registrant has an interest as lessor in the Tintic Mining District of Utah as reported by Sunshine, Registrant's lessee under the Burgin and Unit Leases; and (ii) a description of Western's activities since it leased properties from Registrant in December, 1986.

SUNSHINE MINING COMPANY

Burgin Mine

In March, 1986 Sunshine reported to Registrant the following breakdown of current New Burgin Mine ore reserves. These reserves are all located on Registrant's property leased to Sunshine under the Burgin and Unit Leases including an area

of the property Registrant purchased from AMAX in October, 1985.

<u>Reserve Classi- fications</u>	<u>Tons of Ore</u>	<u>Ounces of Silver</u>	<u>Pounds of Lead</u>	<u>Pounds of Zinc</u>	<u>Ounces of Gold</u>
Proven Ore Reserves	487,655	10,367,545	206,765,720	73,148,250	-
Probable Ore Reserves	<u>534,011</u>	<u>11,887,084</u>	<u>175,155,600</u>	<u>58,148,250</u>	<u>-</u>
Total Proven and Probable Ore Reserves	1,021,666	22,254,629	381,921,320	131,296,500	-
Indicated Ore Reserves (reserves not yet classified as proven or probable)	853,229	11,549,727	195,544,680	86,939,500	65,621

Underground exploratory drilling by Sunshine in the Burgin Mine continued into the first quarter of 1987 with the completion of drillhole SB-15 and drillhole SB-16 in the northern perimeter of the orebody. Sunshine has reported that ore intercepts to-date have significantly increased the Burgin proven and probable reserves. The assay results of drillholes SB-15 and SB-16 were:

<u>Hole No.</u>	<u>Ore Intercept</u>	<u>Silver - Oz./Ton</u>	<u>% Lead</u>	<u>%Zinc</u>
SB-15	27.0'	5.6	15.18	0.93
SB-16	56.9'	6.3	12.0	2.7

A third diamond drill hole SB-17 was collared and drilled to a depth of 85 feet with completion expected before the end of the first quarter of 1987.

Sunshine has reported to Registrant that it is proceeding in its efforts to put in place the \$45 million required under Sunshine's plan to enlarge and develop the Burgin Mine for full production. Sunshine has reported to Registrant that it is considering either the possible joint venturing of the Burgin Mine with a major mining company or the self financing of the entire venture by Sunshine.

Unit Lease

The Trixie Mine, located on Unit Lease property, was closed in 1985, due to Kennecott's closing of its Utah Copper Division. The Trixie had provided Kennecott's smelter with fluxing ore that contained gold and silver values since 1974. The closing of the Kennecott smelter in 1985 meant that Sunshine could no longer process Trixie ore at that smelter and the result to Registrant was that royalties from the Trixie production declined by \$44,816. Kennecott reopened its Utah Copper Division in the latter part of 1986 and Kennecott expects to have its smelter in operation by July 1987, at which time Kennecott's requirement for flux will resume. If Sunshine is successful in renewing its agreement with Kennecott to furnish Trixie Mine ore to Kennecott, the Trixie Mine will be reopened by Sunshine and payment of earned royalties to Registrant under the Unit Lease would be resumed during 1987.

WESTERN MINING CORPORATION HOLDINGS LIMITED

Main Tintic District Lease

Western began its preliminary evaluation of its Main Tintic District holdings in February 1987. The area controlled by Western includes the property it leases from Registrant and additional properties in the area. The initial work performed by Western to-date has consisted primarily of surface evaluations and geological work. It is anticipated that Western will move forward with an exploration and drilling program within the next several months.

HOMANSVILLE AREA PROPERTIES (Owned by Registrant and Unleased)

The Homansville area is comprised of approximately 3,000 acres of unleased property. During the summer of 1986, an angle drillhole from the surface was drilled by Registrant in the Homansville area of Registrant's property. The drillhole's objective was to attempt to determine the width of the mineralization of a prior drillhole (ET-148) by Kennecott in 1974 when Kennecott leased the property from Registrant. Drillhole ET-148 intersected 55 feet of gold mineralization between 1,132 and 1,187 feet assaying at an average of one-third ounce of gold per ton. Registrant's 1986 drillhole (CFC-1) was lost in fractured ground 70 feet above the ET-148 mineralization intersection. Drillhole CFC-1 encountered a low grade gold showing of 0.015 ounces per ton at the bottom of the hole at the point it was terminated. The drilling of a second angle surface drillhole (CFC-2) commenced at the end of 1986 with its objective the same as CFC-1. Registrant cannot predict whether drillhole CFC-2 will be successfully completed, and, if it is, whether or not it will intersect the targeted mineralization.

Item 8. Financial Statements and Supplementary Data

Consolidated Balance Sheets at December 31, 1986 and 1985.

Statements of Consolidated Operations for the Three Years Ended December 31, 1986.

Statements of Changes in Consolidated Financial Position for the Three Years Ended December 31, 1986.

Statements of Shareholders' Equity for the Three Years Ended December 31, 1986.

Notes to Consolidated Financial Statements.

Schedules:

I - Marketable Securities - Other Security Investments, December 31, 1986.

V - Property, Plant and Equipment for the Three Years Ended December 31, 1986.

VI - Accumulated Depreciation and Depletion of Property, Plant and Equipment for the Three Years Ended December 31, 1986.

Schedules not listed are omitted because of the absence of conditions under which they are required or because the information required is shown in the financial statements or in the notes thereto.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The name and age of each of Registrant's directors and executive officers and the nature of all other positions and offices with the Registrant held by him, are:

<u>Names of Registrant's Directors* and Executive Officers**</u>	<u>Age</u>	<u>Offices with Registrant</u>	<u>Term During Which Served in Office</u>
Leonard Weitz	57	Director and Chairman of the Board; President	Director since 1967; President since 1971
Edward R. Schwartz	76	Director; Secretary- Treasurer	Director since 1974; Secretary-Treasurer since 1979
James Callery	49	Director	Director since 1980
Bradbury K. Thurlow	62	Director	Director since 1977

*At the Annual Meeting of Shareholders held on December 9, 1986, each of the four above directors was elected to serve as a director for the ensuing year and until his respective successor is duly elected and qualified.

**Registrant's two executive officers were elected to serve in their respective offices by the Board of Directors at the Annual Meeting of the Board held December 9, 1986 for the ensuing year and until their respective successors are duly elected and qualified.

The following is a brief account of the business experience during the past five years of each director and executive officer named above:

Leonard Weitz	Chairman and President of the Company (since 1971).
Edward R. Schwartz	Secretary and Treasurer of the Company (since October 1979); Independent Consultant since prior to 1982.
James Callery	Engaged in management of oil and gas, forestry, agriculture and other investments since prior to 1982; member of Board of Directors of Lomas & Nettleton Mortgage Investors (a real estate investment trust) since prior to 1982.
Bradbury K. Thurlow	Independent Financial Consultant since prior to 1982.

Item 11. Executive Compensation

The following information is presented concerning the cash compensation of each executive officer of Registrant whose cash compensation during Registrant's fiscal year ended December 31, 1986 exceeded \$60,000 and the cash compensation of all executive officers of Registrant as a Group.

Compensation Table

(A) Name of individual or number in group	(B) Capacities in which served	(C) Cash Compensation
Leonard Weitz	President and Chairman of the Board	\$101,250
Total - 2 officers		104,250

By agreement dated May 8, 1986, Registrant extended for a term of five years the employment agreement dated September 11, 1981 with its President, Leonard Weitz. Mr. Weitz's employment as President of Registrant would have terminated on September 30, 1986, however, the extension agreement provides for his employment as President through September 1991. Mr. Weitz's annual salary under the agreement for the twelve month period ended September 30, 1986 was \$100,000. Mr. Weitz's salary during the next five years of the employment agreement as extended will be as follows for each twelve month period ending September 30: \$105,000 in 1987; \$110,000 in 1988; \$115,000 in 1989; \$120,000 in 1990 and \$125,000 in 1991. In addition, Mr. Weitz will be entitled to incentive compensation equal to 2% of Registrant's pre-tax earnings in excess of \$1,000,000 (exclusive of extraordinary items and sales of property) during each of the calendar years 1987 to 1991 (pro-rated for 1991); however, incentive compensation may not exceed the amount of his base salary for the subject year. Mr. Weitz may also receive during the term of his employment such bonuses as may be determined by the Registrant's Board of Directors.

Incentive Stock Option Plan

On June 16, 1982, the shareholders of Registrant approved an incentive stock option plan whereunder options to purchase up to 100,000 shares of Registrant's common stock may be granted by the Registrant's Board of Directors to officers and key employees of Registrant. Options under the Plan will be granted at not less than 100% of the market price of the Registrant's common stock on the date of grant. The Plan will expire on July 16, 1991, subject to earlier termination by the Board of Directors, and is administered by the Board of Directors. The Plan also includes the following significant provisions: no one person may be granted options to purchase more than 40,000 shares under the Plan; options

granted under the Plan must be exercised in the order granted; the unexercised portion of an option will expire without value five years from the date of grant; payment by the optionee upon exercise of an option may be made using the Registrant's stock, as well as cash; there shall not be granted to any optionee options to purchase stock which has an underlying market value on the date of grant in excess of \$100,000 in any one calendar year; options may be exercised during the optionee's lifetime not more than 90 days after the optionee's employment termination; if the optionee dies while employed by the Registrant, options are fully exercisable by the optionee's estate for the duration of the option.

See "INFORMATION CONCERNING STOCK OPTIONS", below, for information as to incentive stock options granted to officer-directors.

Compensation of Directors

Each director who is not an officer of Registrant receives an annual retainer of \$2,400 and an attendance fee of \$200 for each meeting attended. The Secretary-Treasurer of Registrant, who is a director, does not receive a salary; he receives compensation at the same rate as directors who are not officers of Registrant.

See "INFORMATION CONCERNING STOCK OPTIONS", below, for information as to nonqualified stock options granted to directors.

Nonqualified Stock Options

All nonqualified stock options granted are subject to the approval of Registrant's shareholders. The exercise price for the shares under option is, in each instance, the market price on the date of grant. The nonqualified options may be exercised within ten years from the date of grant, but only so long as the optionee continues to be a director or officer of Registrant. In the event of the death of optionee, the option may be exercised by the optionee's estate within one year after the optionee's death.

See "INFORMATION CONCERNING STOCK OPTIONS", below, for information as to nonqualified stock options granted to directors.

INFORMATION CONCERNING STOCK OPTIONS

The following tabulation shows, as to a certain director and officer of Registrant and as to all directors and officers of Registrant as a group, information with respect to: (A) stock options granted by the Registrant under its Incentive Stock Option Plan and (B) Nonqualified Stock Options granted by the Registrant and approved by the shareholders of Registrant: (1) the title and aggregate amount of securities

subject to options granted during the specific period, (ii) the average per share option exercise price thereof, (iii) the net value of shares (market price less exercise price) realized during the specified period upon the exercise of such options granted during the specified period or prior thereto, (iv) the number of shares sold during the specific period of the same class as those so acquired, (v) the title and aggregate amount of securities subject to all such options outstanding as of the end of the specified period, (vi) the title and aggregate amount of securities subject to all such options outstanding as of the end of the specified period and (vii) the potential (unrealized) value of such outstanding options as of the end of the specified period (market price less exercise price).

	<u>Leonard Weitz</u>	<u>All Directors and Officers as a Group</u>
Common shares(1):		
Incentive stock options granted to officers of Registrant January 1, 1986 to December 31, 1986 under Registrant's Incentive Stock Option Plan:		
Number of options - two options.....	17,500	35,000
Average per share exercise price(2)..	\$ 5.625	\$ 5.625
Nonqualified stock options granted to directors of Registrant:		
January 1, 1986 to December 31, 1986(3):		
Number of options - four options...	20,000	120,000
Average per share exercise price(2)	\$ 5.625	\$ 5.625
Stock options exercised January 1, 1986 to December 31, 1986.....	None	None
Sales January 1, 1986 to December 31, 1986.....	None	None
Stock options expired January 1, 1986 to December 31, 1986:		
Incentive Stock Options(4).....	(13,000)	(26,000)
Nonqualified Stock Options(4).....	None	(40,000)
Outstanding at December 31, 1986:		
Incentive stock options.....	34,500	59,000
Nonqualified stock options.....	30,000	160,000
Potential (unrealized) value - (market price less exercise price) at December 31, 1986.....	\$40,000	\$166,250

- (1) The number of options set forth above correspond to the number of shares to which they relate.
- (2) The market price per share on the date the option was granted was the same as the option price.

(3) Approved by shareholders at December 9, 1986 meetings.

(4) Options expired on July 16, 1986.

No other options were granted during the period January 1, 1986 to December 31, 1986.

Item 12. Security Ownership of Certain Beneficial Owners and Management

- (a) The following table shows as of March 3, 1987 stock ownership of all persons known to management to be beneficial owners of more than 5% of the common stock of the Registrant:

<u>Name and Address of Beneficial Owners</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percentage of Common Stock</u>
William E. Simon..... c/o Wesray Corp. 330 South Street Morristown, N.J. 07960	300,000 shares(1)	9.3%

- (1) Includes 200,000 shares that Mr. Simon has the right to acquire under an option issued by the Registrant.

- (b) The equity securities of the Registrant beneficially owned by all directors and by directors and officers of the Registrant as a group, as of March 3, 1987, are:

<u>Title of Class</u>	<u>Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership*</u>	<u>Percent of Class</u>
Common Stock, \$0.50 par value:	James Callery	92,200 (1)(5)	2.82%
	Edward R. Schwartz	59,600 (2)(6)	1.82
	Bradbury K. Thurlow	52,450 (3)(5)	1.61
	Leonard Weitz	94,510 (4)(7)	2.88
	Owned by all direc- tors and officers as a group	298,760 (8)	8.70
Preferred Stock, \$0.50 par value:	None	-	-

*Each director has sole voting and investment power with respect to shares owned by him.

- (1) Does not include an aggregate of 10,500 shares owned by James Callery's wife and children, in which shares Mr. Callery disclaims any beneficial interest.
- (2) Does not include 1,700 shares owned by a trust in which Edward R. Schwartz is an income beneficiary with possible right of invasion of trust principal. Also does not include 200 shares owned by Edward R. Schwartz's wife, in which shares Mr. Schwartz disclaims any beneficial interest.
- (3) Does not include 1,000 shares owned by Bradbury K. Thurlow's wife, in which shares Mr. Thurlow disclaims any beneficial interest.
- (4) Does not include 20,000 shares owned by Leonard Weitz's wife, in which shares Mr. Weitz disclaims any beneficial interest.
- (5) Includes nonqualified options to purchase 50,000 shares held by each of Messrs. Callery and Thurlow.
- (6) Includes incentive stock options to purchase 24,500 shares under Registrant's Incentive Stock Option Plan and nonqualified options to purchase 30,000 shares held by Edward R. Schwartz.
- (7) Includes incentive stock options to purchase 34,500 shares under Registrant's Incentive Stock Option Plan and nonqualified options to purchase 30,000 shares held by Mr. Weitz.
- (8) Includes options to purchase an aggregate of 219,000 shares as referred to at notes (5), (6) and (7) above.

Item 13. Certain Relationships and Related Transactions

None.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. See Item "8".

2. See Item "8".

3. Description of Exhibits required to be filed by Item 601 of Regulation S-K:

(The numbers shown below next to each exhibit are keyed to Exhibit Table of Item 601 of Regulation S-K)

"(2)" Not applicable.

"(3)" Articles of Incorporation and By-Laws:

Registrant hereby incorporates by reference the Articles of Incorporation and By-Laws previously filed with the Commission.

"(4)" Not applicable

"(10)" Material Contracts:

Mining Leases

- A. Sunshine Lease - Mining Lease and Agreement dated October 15, 1980 between Registrant and Sunshine Mining Company: Registrant hereby incorporates by reference the Sunshine Lease Agreement dated October 15, 1980, copies of which were filed with the Commission by Registrant as part of its Form 8-K Report dated October 22, 1980.
- B. Unit Lease - Leases and Unit Agreement of August 29, 1956 by and between Registrant and other co-lessors, as Lessors, and Bear Creek Mining Company, as Lessee.

Amendments to Unit Lease:

July 5, 1968
January 1, 1972
March 14, 1977
June 16, 1978
October 26, 1982

Registrant hereby incorporates by reference the Unit Lease and each of the Amendments set forth above, copies of which were filed with the Commission by

Registrant as part of its 10-K Reports as follows:
Amendments 1968 through 1978 - 1980 10-K Report;
October 26, 1982 Amendment - 1982 10-K Report.

Agreement dated October 1, 1982 between Registrant and its co-lessors under the Unit Lease. Registrant hereby incorporates by reference the said Agreement, a copy of which was filed with the Commission by Registrant as part of its 1982 10-K Report.

Agreement (signed by Registrant March 25, 1983) between Registrant, its co-lessors under the Unit Lease, and Kennecott. Registrant hereby incorporates by reference the said Agreement, a copy of which was filed with the Commission by Registrant as part of its 1983 10-K Report.

- C. Western Lease - Mining Lease and Agreement dated December 29, 1986 between Registrant and Grand Central Mining Corporation, a wholly-owned subsidiary of Western Mining Corporation (U.S.A.), a wholly-owned subsidiary of Western Mining Corporation Holdings Limited of Australia: Registrant hereby incorporates by reference the Western Lease agreement dated December 29, 1986, copies of which were filed with the Commission by Registrant as part of its Form 8-K Report dated January 6, 1987.

- "(11)" Not applicable
- "(12)" Not applicable
- "(13)" Not yet furnished to security holders as of filing date of this Report.
- "(18)" Not applicable
- "(19)" Not applicable
- "(22)" Not applicable
- "(23)" Not applicable
- "(24)" Not applicable
- "(25)" Not applicable
- "(28)" Not applicable
- "(29)" Not applicable
- (b) Reports filed on Form 8-K:
None
- (c) See "(a)" above.
- (d) The Financial Statements described at "(a)(1) and (a)(2)" above are annexed to this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHIEF CONSOLIDATED MINING COMPANY

By Leonard Weitz
Leonard Weitz, President and a Director

Date March 27, 1987

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By Edward R. Schwartz
Edward R. Schwartz, Secretary-Treasurer
and a Director

Date March 27, 1987

By Bradbury K. Thurlow
Bradbury K. Thurlow, a Director

Date March 27, 1987

CHIEF CONSOLIDATED MINING COMPANY
AND CONSOLIDATED SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

Chief Consolidated Mining Company (the "Company") is a corporation formed under the laws of Arizona. The accompanying consolidated financial statements include the accounts of the Company and Eagle & Blue Bell Mining Company, a 99 percent owned subsidiary.

The Company's carrying value of its three investments in common stocks of affiliates (unconsolidated subsidiaries), all of which are presently inactive and none of which are significant subsidiaries, is approximately equal to its equity in the net assets thereof. The Company also has an equity investment in another inactive company. In the opinion of management, there has been no permanent impairment of the Company's net investment in these unconsolidated subsidiaries and equity investee.

Fixed Assets

The Company is the owner of approximately 14,200 acres of patented mining ground in the Tintic Mining District, Juab and Utah Counties, Utah and unpatented mining claims covering approximately 1,500 acres adjacent to its patented properties and holds a minerals lease from the State of Utah for an additional 532 acres. The Company leases mining rights to 11,437 acres of its patented mining ground under three separate agreements: two with Sunshine Mining Company ("Sunshine") and one with Grand Central Mining Corporation, an indirect wholly-owned subsidiary of Western Mining Corporation Holding Limited of Australia ("Western").

Unit Lease

Under a Unit Lease and Agreement dated August 1956 (the "Unit Lease"), the Company, together with four other co-lessors, leased a total of 10,711 acres to Kennecott Corporation ("Kennecott") including 4,733 of the Company's acres.

1,387 acres, including the Burgin Mine, were removed from the Unit Lease by amendment in 1978 and leased by the Company to Sunshine under a mining lease dated October 15, 1980. See "Sunshine's Burgin Lease" below.

2,013 acres, including the Homansville Fault area, were removed from the Unit Lease by amendment in October 1982.

In December 1982, Kennecott ceased mining activities on the remaining lease property under the Unit Lease and continued its production from the leased property using ore previously mined and stockpiled. In April 1983, Kennecott sold its interest as lessee in the Unit Lease to HMC Mining, Inc. ("HMC") and in June 1983, Sunshine acquired HMC and became the lessee under the Unit Lease. The term of the Unit Lease is to 2006 unless sooner terminated by Sunshine. Sunshine has the right to renew the lease for an additional fifty years to 2056.

In October 1985, the Company acquired from AMAX Arizona, Inc. 3,185 acres of mining property and all of its interest in the Unit Lease and 532 acres under lease from the State of Utah which were assigned to the Company by AMAX Arizona Inc.

Sunshine's Burgin Lease

On October 15, 1980, the Company leased the aforementioned acres including the Burgin Mine to Sunshine. The Lease is for an initial term of fifty years to 2030 unless sooner terminated by Sunshine. Sunshine has the right to renew the lease.

Diamond's Mine Dumps and Mill Tailings Lease

On May 15, 1985, the Company leased to Diamond Bullion Corporation ("Diamond") its surface mine dumps and tailings for the limited purpose of recovering and extracting all valuable products contained in the material. On December 29, 1986, concurrent with a lease agreement with Western (see "Western Lease", below), the lease was terminated.

Western Lease

On December 29, 1986, the Company leased to Western the underground mining rights to approximately 5,000 acres of property in the Main Tintic Mining District of Utah. The lease is for a term of twenty-five years unless terminated by Western. The mining rights covered by the lease include mine dumps and mill tailings formerly leased to Diamond.

Depletion and Depreciation

From January 1, 1966 to July 15, 1978, the Company made provisions for cost depletion based on production from the Burgin Mine by Kennecott; no mineral depletion provisions have been made subsequent to July 15, 1978 as a result of Kennecott's termination of mining from the Burgin Mine and the removal of the Burgin Mine from its lease. Sunshine has not initiated production from the Burgin Mine.

Provision for depreciation has been computed at various straight-line rates, ranging from 3 to 20 percent, based on the estimated useful lives of the assets.

Recognition of Revenue

Unit Lease

Under the current provisions of the Unit Lease, monthly earned royalties payable by Sunshine to the lessors are to equal 7 1/2 percent of Sunshine's monthly net smelter returns from the leased property.

If in any year Sunshine's net smelter returns exceed \$25 million, the royalty percentage will be increased to 10 percent of net smelter returns for such year (the "additional royalty"). The Company's share of such royalties is 5.8 percent of Sunshine's net smelter returns (7.7 percent if the 10 percent royalty is applicable) on ore mined from the Company's property and 4.1 percent of Sunshine's net smelter returns (5.4 percent if the 10 percent royalty is applicable) on ore mined from the property of co-lessors. Under an agreement dated October 1, 1982, the Company and its co-lessors under the Unit Lease agreed to a redivision of royalties between them if royalties payable by lessee under the Unit Lease during a lease year do not exceed \$56,000. If such redivision provision is applicable, the Company's share of said annual royalty is to be scaled down depending upon the amount of the total royalties. The maximum possible reduction in the Company's royalty income in any single year is \$6,000.

During the year ended December 31, 1984, the Company's royalties from Kennecott under the Unit Lease totaled \$1,872.

During the years ended December 31, 1985 and 1984, the Company's royalties from Sunshine under the Unit Lease totaled \$45,141 and \$35,454, respectively.

Sunshine's Burgin Lease

Sunshine's Burgin Lease provides that Sunshine pay the Company advance royalties of \$100,000 per annum until Sunshine begins commercial production of ore. The 1984, 1985 and 1986 royalty payments were received and recognized in the respective years.

Once commercial production has begun, the Company will receive the greater of 7-1/2 percent of Sunshine's annual net smelter returns from production or \$150,000 per annum. Advance royalties will be credited against future earned royalties on a formula basis as defined in the lease. Under the terms of the June 1978 amendment to the Unit Lease, so long as the Unit Lease remains in effect the Company is obligated to pay an amount equal to one-third of the royalties from Sunshine's Burgin Lease to the Company's co-lessors under the Unit Lease.

Diamond's Mine Dumps and Mill Tailings Lease

As a result of the termination of Diamond's lease, the Company received shares of Diamond's successor corporation, Centurion Mines Corporation, with a market value of \$16,875, included in other security investments at December 31, 1986. Such amount is recognized as royalties in 1986.

Western Lease

Western's lease provides that Western pay the Company advance royalties of \$55,000 per annum until such time as commercial production begins. In December 1986, the Company received advance royalties of \$55,000 which was recorded as deferred revenue to be recognized in 1987.

At such time that commercial production begins, the Company is to receive the greater of a scaled percentage (between 4 percent and 7-1/2 percent based upon average silver prices) or \$100,000 per annum. Advance royalties will be credited against future earned royalties on a formula basis defined in the lease.

Exploration Drilling Costs

Exploration drilling costs are expensed as incurred.

2. MORTGAGES RECEIVABLE

In connection with the sale in 1975 of certain residential houses by the Company in the Eureka, Utah area, the Company holds first mortgages on the aforementioned properties. These mortgages all bear 7-1/2 percent interest on the remaining principal balances.

The mortgages each provide for a minimum monthly payment representing principal and interest. Based upon these minimum monthly payments, the mortgages will be fully paid in approximately 2 to 7 years. The mortgages permit prepayment, in whole or in part.

3. NOTE RECEIVABLE - RELATED PARTY

In September 1981, the Board of Directors approved a loan of \$42,500 to an officer-director of the Company. In May 1986, the Board of Directors extended the maturity date of the note for five years from September 30, 1986 to September 30, 1991. The note bears interest at the variable rate of interest that would be imputed under the Internal Revenue Service Code. The note is collateralized by a stock certificate representing 20,000 shares of the Company's common stock. As of December 31, 1986, the market value of the collateral exceeded the face value of the note.

4. CAPITAL STRUCTURE

The Board of Directors of the Company has authorized the issuance, at the stockholders' option, of common stock in exchange for preferred stock on a share for share basis. The preferred shares obtained in the exchange have been retired.

The shares of preferred stock and common stock of the Company are equal in the right to receive dividends and in all other respects except that upon liquidation the preferred shares are entitled to a preferential payment of \$.50 per share.

On January 16, 1984, the Company sold, for cash, 87,500 shares of unregistered common stock at \$4.00 per share. The mean market price on the Pacific Stock Exchange for the Company's common stock on January 13, 1984 was \$6.00 per share. Of the 87,500 shares sold, 10,000 of such shares were purchased by a director of the Company and a total of 12,500 shares were purchased by the wives of two directors of the Company.

On September 26, 1985, the Company sold, for cash, 50,000 shares of unregistered common stock at \$4.00 per share. The mean market price on the Pacific Stock Exchange for the Company's common stock on September 25, 1985 was \$5.063 per share.

On October 7, 1985, the Company sold, for cash, 100,000 shares of unregistered common stock to an investor at \$4.00 per share. In connection with that transaction, the Company granted an option to purchase an additional 200,000 shares at \$5.46 per share. The mean market price on the Pacific Stock Exchange for the Company's common stock on October 4, 1985 was \$5.44 per share. In connection with this transaction, 2,500 shares of unregistered common stock were issued, along with a cash payment of \$10,000, as brokerage commission.

On June 30, 1986, the Company entered into an agreement pursuant to which it issued 2,000 shares of unregistered common stock for corporate relations services rendered during the year ended December 31, 1986.

The Company has consummated the above limited offerings and sales of its common stock in transactions exempt from registration under Regulation D promulgated under the Securities Act of 1933. The shares purchased in the offerings cannot be resold without registration under such Act or an exemption therefrom. Under current Securities and Exchange Commission regulations, unregistered shares cannot be resold until at least two years after their purchase.

The purpose of the offerings was to raise additional working capital for the Company.

5. STOCK OPTIONS

In June 1982, the shareholders approved an Incentive Stock Option Plan (the "Plan") for key employees which would provide for the Board of Directors to grant options to purchase up to 100,000 shares of the Company's common stock, with a maximum grant to purchase 40,000 shares for each key employee. The option price for the shares under option shall be not less than 100 percent of the market price of the stock at the date of grant.

The Board of Directors granted options under the Plan to each of the two officer-directors of the Company as follows: 13,000 shares each in 1981 and 7,000 shares each in 1982, all at \$7.56 per share. In May 1984, the Board of Directors issued options to purchase 10,000 shares to its President and 5,000 shares to each of its two non-officer employees at \$8.625 per share. In May 1985, the Board of Directors issued options to purchase 5,000 shares to each of its non-officer employees at \$5.125 per share. In May 1986, the Board of Directors issued options to purchase 17,500 shares to each of the two officer-directors at \$5.625 per share. At December 31, 1986, options to purchase 59,000 shares under the Plan were outstanding.

In June 1983, the shareholders also approved the issuance of non-qualified stock options to purchase 20,000 shares to each of three outside directors at \$7.56 per share. In May 1984, the Board of Directors approved the grant of nonqualified stock options to purchase 10,000 shares to each of the Company's then five directors at \$8.625 per share. In May 1985, options for 40,000 shares were re-issued at an option price of \$5.125. In 1984, one of the directors died and, accordingly, such Director's 20,000 options expired in 1985 (one year after date of death). In May 1986, the Board of Directors approved the grant of nonqualified stock options to purchase 40,000 shares to each of the outside directors and 20,000 shares to each of the officer-directors, all at \$5.625 per share. At December 31, 1986, nonqualified stock options to purchase a total of 160,000 shares were outstanding.

CHIEF CONSOLIDATED MINING COMPANY
AND CONSOLIDATED SUBSIDIARY

MARKETABLE SECURITIES - OTHER SECURITY INVESTMENTS,
 DECEMBER 31, 1986

NAME OF ISSUER AND TITLE OF EACH ISSUE	PRINCIPAL AMOUNT OF BILLS AND NUMBER OF COMMON SHARES	COST OF EACH ISSUE	MARKET VALUE OF EACH ISSUE AT BALANCE SHEET DATE	AMOUNT AT WHICH EACH PORTFOLIO OF EQUITY SECURITY ISSUES AND EACH OTHER SECURITY ISSUE CARRIED IN THE BALANCE SHEET
United States Government.	\$125,000	\$122,982	\$123,468	\$122,982
A.J. Venture.....	33,000	16,500	-	-
Centurion Mines.....	67,500	16,875	16,875	16,875
		<u>\$156,357</u>	<u>\$140,343</u>	<u>\$139,857</u>

6. INCOME TAXES

Net operating loss carryforwards are available for Federal income tax purposes for fifteen years from the year of loss, in the following approximate amounts:

<u>Year of Loss</u>	<u>Amount</u>
1976.....	\$ 100,600
1977.....	133,200
1978.....	76,200
1979.....	19,900
1980.....	80,100
1983.....	161,500
1984.....	246,800
1985.....	192,800
1986.....	<u>274,300</u>
Total.....	<u>\$1,285,400</u>

7. LOSS PER SHARE

Loss per share amounts are based on the weighted average number of shares of preferred and common stock outstanding during each year. No effect has been given to shares under option in the computation of loss per share because they would be antidilutive to the computation.

8. LEASE COMMITMENT

Rent expense for office space amounted to approximately \$24,745, \$24,772 and \$12,800 for 1986, 1985 and 1984, respectively. The minimum rental commitment required to be paid as of December 31, 1986 under the Company's office lease, which expires in 1989 is as follows:

<u>Year</u>	<u>Amount</u>
1987.....	\$22,422
1988.....	22,422
1989.....	11,211

The lease agreement contains escalation clauses based principally on the operating expenses of the lessor.

CHIEF CONSOLIDATED MINING COMPANY
AND CONSOLIDATED SUBSIDIARY

STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE THREE YEARS ENDED DECEMBER 31, 1986

	PREFERREDSTOCK.....	COMMON STOCK....			
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT	CAPITAL SURPLUS	DEFICIT
BALANCE, JANUARY 1, 1984....	9,892	\$4,946	2,971,524	\$1,485,762	\$1,937,849	\$(1,264,679)
ISSUANCE OF COMMON STOCK (Note 4).....			87,500	43,750	306,250	
EXCHANGE OF COMMON STOCK FOR PREFERRED STOCK (Note 4).....	(634)	(317)	634	317		
NET LOSS.....						(125,125)
BALANCE, DECEMBER 31, 1984..	9,258	4,629	3,059,658	1,529,829	2,244,099	(1,389,804)
ISSUANCE OF COMMON STOCK (Note 4).....			152,500	76,250	513,750	
EXCHANGE OF COMMON STOCK FOR PREFERRED STOCK (Note 4).....	(421)	(211)	421	211		
NET LOSS.....						(192,760)
BALANCE, DECEMBER 31, 1985..	8,837	4,418	3,212,579	1,606,290	2,757,849	(1,582,564)
ISSUANCE OF COMMON STOCK (Note 4).....			2,000	1,000	9,375	
EXCHANGE OF COMMON STOCK FOR PREFERRED STOCK (Note 4).....	(200)	(100)	200	100		
NET LOSS.....						(274,321)
BALANCE, DECEMBER 31, 1986..	<u>8,637</u>	<u>\$4,318</u>	<u>3,214,779</u>	<u>\$1,607,390</u>	<u>\$2,767,224</u>	<u>\$(1,856,885)</u>

See Notes to Consolidated Financial Statements.

CHIEF CONSOLIDATED MINING COMPANY
AND CONSOLIDATED SUBSIDIARY

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION
FOR THE THREE YEARS ENDED DECEMBER 31, 1986

	1986	1985	1984
SOURCE OF CASH AND CASH EQUIVALENTS:			
Issuance of common stock and conversion of preferred stock to common stock (Notes 4 and 5).....	\$ 100	\$590,211	\$134,344
Decrease in accounts receivable.....	6,572		4,563
Decrease in mortgages receivable (Note 2).....	1,090	1,485	1,683
Repayment of note receivable - related party (Note 3)..			2,500
Increase in other current liabilities.....		16,725	
Deferred revenue - royalties (Note 1).....	55,000		155,000
Other - net.....			1,493
Total.....	62,762	608,421	299,583
APPLICATION OF CASH AND CASH EQUIVALENTS:			
Net loss.....	274,321	192,760	161,495
(Add) Deduct - items not requiring the outlay of cash and cash equivalents:			
Depreciation (Note 1).....	(1,600)	(500)	(2,910)
Issuance of common stock (Note 4).....	(10,375)		
Amortization of deferred revenue (Note 1).....			155,000
Cash and cash equivalents used in operations.....	262,346	192,260	313,585
Purchase of mining claims and property.....		150,100	
Increase in investments of affiliates (Note 1).....		30,400	
Increase in other security investments.....	16,875		
Increase in accounts receivable.....		588	
Increase in advances to affiliates.....	305	1,956	90
Issuance of note receivable - related party (Note 3)...			1,500
Decrease in other current liabilities.....	783		6,078
Decrease in royalties payable (Note 1).....			33,333
Conversion of preferred stock to common stock.....	100	211	344
Other - net.....	52	472	3,334
Total.....	280,461	375,987	358,264
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	<u>\$(217,699)</u>	<u>\$232,434</u>	<u>\$(58,681)</u>
CASH AND CASH EQUIVALENTS:			
Beginning of year:			
Cash and cash equivalents.....	\$ 379,885	\$147,451	\$101,705
End of year:			
Cash.....	39,204	33,186	43,024
U.S. Treasury bills.....	122,982	346,699	
Total.....	162,186	379,885	43,024
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	<u>\$(217,699)</u>	<u>\$232,434</u>	<u>\$(58,681)</u>

See Notes to Consolidated Financial Statements

CHIEF CONSOLIDATED MINING COMPANY
AND CONSOLIDATED SUBSIDIARY

PROPERTY, PLANT AND EQUIPMENT
 FOR THE THREE YEARS ENDED DECEMBER 31, 1986

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS	RETIRE- MENTS OR SALES	BALANCE AT END OF YEAR
1984:				
Machinery and equipment...	\$ 23,487		\$5,000	\$ 18,487
Buildings.....	38,618			38,618
TOTAL.....	\$ 62,105		\$5,000	\$ 57,105
Mining claims and property (Note).....	\$3,988,616			\$3,988,616
1985:				
Machinery and equipment...	\$ 16,538			\$ 16,538
Buildings.....	38,618			38,618
TOTAL.....	\$ 55,156			\$ 55,156
Mining claims and property (Note).....	\$3,988,616	\$150,100		\$4,138,716
1986:				
Machinery and equipment...	\$ 16,538			\$ 16,538
Buildings.....	38,618			38,618
TOTAL.....	\$ 55,156			\$ 55,156
Mining claims and property (Note).....	\$4,138,716			\$4,138,716

NOTE: Included in mining claims and property are capitalized development costs in the amount of \$326,090.

CHIEF CONSOLIDATED MINING COMPANY
AND CONSOLIDATED SUBSIDIARY

ACCUMULATED DEPRECIATION AND DEPLETION
OF PROPERTY, PLANT AND EQUIPMENT
FOR THE THREE YEARS ENDED DECEMBER 31, 1986

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	CHARGED TO INCOME	RETIRE- MENTS, RENEWALS, AND REPLACE- MENTS	BALANCE AT END OF YEAR
1984:				
Accumulated depreciation:				
Machinery and equipment.	\$ 19,533	\$1,410	\$3,800	\$ 17,143
Buildings.....	30,202	1,500		31,702
TOTAL.....	<u>\$ 49,735</u>	<u>\$2,910</u>	<u>\$3,800</u>	<u>\$ 48,845</u>
Accumulated depletion - mining claims and property.....	<u>\$1,927,799</u>			<u>\$1,927,799</u>
1985:				
Accumulated depreciation:				
Machinery and equipment.	\$ 16,011	\$ 200		\$ 16,211
Buildings.....	32,619	\$ 300		32,919
TOTAL.....	<u>\$ 48,630</u>	<u>\$ 500</u>		<u>\$ 49,130</u>
Accumulated depletion - mining claims and property.....	<u>\$1,927,799</u>			<u>\$1,927,799</u>
1986:				
Accumulated depreciation:				
Machinery and equipment.	\$ 16,211	\$ 327		\$ 16,538
Buildings.....	32,919	\$1,273		34,192
TOTAL.....	<u>\$ 49,130</u>	<u>\$1,600</u>		<u>\$ 50,730</u>
Accumulated depletion - mining claims and property.....	<u>\$1,927,799</u>			<u>\$1,927,799</u>

CHIEF CONSOLIDATED MINING COMPANY
AND CONSOLIDATED SUBSIDIARY

STATEMENTS OF CONSOLIDATED OPERATIONS
FOR THE THREE YEARS ENDED DECEMBER 31, 1986

	1986	1985	1984
REVENUE:			
Royalties (Note 1).....	\$122,200	\$152,226	\$204,826
Interest.....	20,797	17,914	21,807
Total.....	142,997	170,140	226,633
EXPENSES:			
General and administrative.....	342,809	309,616	302,410
Exploration drilling costs (Note 1)....	32,123		
Royalties (Note 1).....	22,667	34,278	37,500
Depreciation (Note 1).....	1,600	500	1,734
Taxes other than income taxes.....	18,119	18,506	10,114
Total.....	417,318	362,900	351,758
NET LOSS.....	\$274,321	\$192,760	\$125,125
LOSS PER SHARE (Note 7).....	\$.09	\$.06	\$.04

See Notes to Consolidated Financial Statements.

CHIEF CONSOLIDATED MINING COMPANY
AND CONSOLIDATED SUBSIDIARY

CONSOLIDATED BALANCE SHEETS, DECEMBER 31, 1986 AND 1985

	-- A S S E T S --		L I A B I L I T I E S A N D -- S H A R E H O L D E R S ' E Q U I T Y --	
	1986	1985	1986	1985
CURRENT ASSETS:				
Cash.....	\$ 39,204	\$ 33,186		
U.S. Treasury Bills - at cost which approximates market value.....	122,982	346,699		
Accounts receivable (less allowance for bad debts; 1986 - \$ -0-; 1985 - \$20,000)	6,314	12,886		
Notes receivable - related parties (Note 3).....	1,321	42,500		
Mortgages receivable (Note 2).....		1,414		
Total current assets.....	169,821	436,685		
INVESTMENTS:				
Affiliates:				
Common stocks - at cost less valuation reserve of \$11,359 (Note 1).....	128,551	128,551		
Advances.....	19,136	18,831		
Other security investments - at cost or less (Schedule I).....	16,875			
Total investments.....	164,562	147,382		
FIXED ASSETS - At cost (Note 1 and Schedules V and VI):				
Plant and equipment (less accumulated deprecia- tion: 1986 - \$50,730; 1985 - \$49,130).....	4,426	6,026		
Mining claims and property (less accumulated depletion: \$1,927,799).....	2,210,917	2,210,917		
Fixed assets - net.....	2,215,343	2,216,943		
OTHER ASSETS:				
Mortgages receivable (Note 2).....	8,195	9,192		
Notes receivable - related parties (Note 3).....	42,500			
Other.....	3,233	3,181		
Total other assets.....	53,928	12,373		
TOTAL.....	\$2,603,654	\$2,813,383		
			TOTAL.....	\$2,603,654
				\$2,813,383

See Notes to Consolidated Financial Statements.

CURRENT LIABILITIES - Accounts payable and accrued expenses.....	\$ 26,607	\$ 27,390
DEFERRED REVENUES (Note 1).....	55,000	
SHAREHOLDERS' EQUITY (Notes 4 and 5):		
Preferred stock - nonassessable (authorized, 1,500,000 shares of \$.50 par value each; issued: 1986 - 8,639 shares, 1985 - 8,839 shares; held in treasury - 2 shares; out- standing: 1986 - 8,637 shares, 1985 - 8,837 shares).....	4,318	4,418
Common stock - nonassessable (authorized, 5,000,000 shares of \$.50 par value each; issued: 1986 - 3,231,220 shares, 1985 - 3,229,020 shares; held in treasury - 16,441 shares; outstanding: 1986 - 3,214,779 shares, 1985 - 3,212,579 shares).....	1,607,390	1,606,290
Capital surplus.....	2,767,224	2,757,849
Deficit.....	(1,856,885)	(1,582,564)
Total shareholders' equity.....	2,522,047	2,785,993

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDER:

Two important events occurred during 1986 that significantly enhanced the potential of your Company's mining properties. These events were the signing of a lease agreement with a U.S. subsidiary of Western Mining Corporation Holdings Limited of Australia, and the assay results of Sunshine Mining Company's underground drilling program at your Company's Burgin Mine properties leased to Sunshine.

Western Mining is Australia's largest gold producer and a major world nickel producer. Western Mining's assets total over \$1 billion and its stock has a current market value in excess of \$2 billion on the Sydney Stock Exchange (U.S. dollars). Chief's lease agreement with Western Mining's subsidiary covers approximately 5,000 acres in Utah's Main Tintic Mining District; this leased property includes Chief's #2 Shaft that was renovated by ASARCO in 1984 shortly before Chief reacquired control of its Main District property holdings from ASARCO.

Sunshine's underground drilling program at the Burgin Mine commenced in the latter part of 1986 and continued through March, 1987. All of Sunshine's drillholes intercepted commercial grade mineralization containing silver, lead and zinc. The most significant drillhole intercepted 39.9 feet of ore which assayed at an average of 63.3 ounces of silver, 640 pounds of lead and 94 pounds of zinc per ton. The high grade assays of Sunshine's ore intercepts confirmed both Sunshine's previous surface drilling results and Kennecott's earlier underground drilling results which indicated that ore grades were significantly higher as the Burgin orebody expands in a westerly direction.

At this important juncture in your Company's seventy-eight year history, Chief's shareholders should be fully cognizant as to the magnitude of their Company's assets. To provide a basis for shareholders to evaluate their Company's potential, there follows a summary of Chief's principal assets and interests. Chief's complete 1986 Securities and Exchange Commission Form 10-K is contained in this Annual Report and provides a more detailed description of Chief's holdings and interests.

BURGIN LEASE—1,387 acres of Chief's properties leased to Sunshine Mining:

Chief holds title to the Burgin property that it leases to Sunshine including all fixed assets, underground mine workings and orebodies. The replacement value of the Burgin's fixed assets, including the Concentrating Mill, head frames and shafts, buildings and fixed equipment is in excess of \$50 million. The current gross metallic value of

the Burgin orebody at current metals prices is in excess of \$400 million based upon Sunshine's publicly reported proven and probable ore reserves as of January 1, 1987, which were: 1,081,346 tons of ore containing 25,127,118 ounces of silver; 412,210,000 pounds of lead and 137,764,000 pounds of zinc. These ore reserves do not include approximately one million tons of indicated ore and additional increases in proven reserves as a result of Sunshine's mineralized drilling intercepts in 1987. It is interesting to note that the gross metallic value of the proven and probable reserves of the Burgin Mine exceeds by approximately \$100 million the gross metallic value of Sunshine's Mine in Idaho which is generally viewed as Sunshine's major silver mine.

The significant ore reserves of the Burgin are an indication of the real potential value of the Burgin Mine once it again becomes an operating mine. Under the lease, Chief will receive net smelter return royalties from Sunshine based on actual production in lieu of the advance royalties Chief presently receives.

On October 24, 1986 at the State of Utah environmental hearing that authorized the issuance of the final mining permit needed by Sunshine to implement its Burgin Mine reopening plans, an officer of Sunshine publicly stated that the Burgin operations would be very high grade, would employ about 500 people and would be extremely profitable to Sunshine. These statements were made by the Sunshine official at a time when prices of silver, lead and zinc were all significantly lower than current price levels. The Sunshine official also stated at the environmental hearing that Sunshine would have no problem in obtaining the estimated \$45 million required to bring the Burgin Mine into full production as a major U.S. silver, lead and zinc producer.

Your Management, based upon Sunshine's own announcements, expects Sunshine to honor its commitments and obligations to your Company and to move forward rapidly with the reopening and development of the Burgin Mine. As of the date of this Report, Sunshine has not yet advised Chief as to the date it will reopen the Burgin Mine.

UNIT LEASE—4,518 acres of Chief's property leased to Sunshine Mining:

It is anticipated that the Trixie Mine located on the property of Chief's remaining co-lessor under the Unit Lease, will reopen in July, 1987 to provide fluxing ore for Kennecott's Utah Division smelter. As of the date of this Report, Sunshine has not yet advised Chief that a final contract agreement with Kennecott has been reached. The Kennecott

smelter requirements for Trixie ore would be limited to 1,100 tons per month and would not result in significant income to Chief. This would not be the case, however, if Sunshine were to put the Trixie Mine into full production and process or otherwise market the gold and silver ores produced in excess of Kennecott's requirements.

MAIN DISTRICT LEASE—5,000 acres of Chief's property leased to a U.S. subsidiary of Western Mining:

Since signing its lease agreement with Chief in December, 1986, Western Mining has funded its Main District exploration program and will initiate a surface drilling program in early July, 1987.

Due to today's high cost of developing an orebody, a mining company needs to first prove reserves sufficient to justify expenditures to open a new mine, or in the case of the Main District, to reopen Chief's Mines that have been closed for thirty years. Based on the past history of the Main District, prospects are good for Western's exploration program developing sufficient reserves to reopen the Main District. During the period between 1909 and 1956 that Chief mined this area, it produced 3,485,493 tons of ore containing 52,233,148 ounces of silver; 201,494 ounces of gold; 413,831,665 pounds of lead; 166,711,652 pounds of zinc; 10,935,863 pounds of copper and 2,398,784 pounds of manganese.

CHIEF'S UNLEASED ACREAGE—Includes a total of 3,513 acres of property and claims:

The Homansville area consists of 2,013 acres of your Company's property and 320 acres of Central Standard Consolidated Mines property. Surface drilling by Chief to delineate the extent of gold mineralization in previous reported Kennecott drillholes has not reached the target area due to the fractured nature of the ground. Similar problems were encountered by Kennecott before Chief and Central required control of their respective properties in 1982.

It is apparent that the best way to properly ascertain the significance and extent of the gold

mineralization is to renovate the old Copper Leaf shaft located on Central's property and move underground into the target area. The cost of this project would be approximately \$3 million and your management is presently working to obtain a joint venturer to contribute the necessary funds in return for an interest in the properties. Chief owns 22.5% of Central Standard's shares.

The object of Chief's policy during the past several years of acquiring and expanding its property holdings during periods of depressed metals prices is coming to fruition. The acquisition in 1985 of the AMAX property has gained in importance in 1987 as Sunshine's mineralized Burgin drillholes have crossed into former AMAX property now owned by Chief. In addition, Sunshine has projected that the main thrust of the Burgin orebody continues in this area towards the Tintic Standard Mine which is also located on property now owned by your Company.

The future bodes well for the recognition of Chief as an important independent company in the mining industry. Thank you for your continuing support.



LEONARD WEITZ
CHAIRMAN AND PRESIDENT

June 1, 1987

PLEASE REFER TO YOUR COMPANY'S 1986 FORM 10-K INCLUDED IN THIS REPORT FOR FURTHER DETAILS CONCERNING YOUR COMPANY'S PROPERTIES, LEASES, RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Chief Consolidated Mining Company 1986 Form 10-K Report

This report to shareholders includes a complete copy of Chief Consolidated Mining Company's 1986 Form 10-K Annual Report to the Securities and Exchange Commission which contains among other information, a description of the Corporation's business, a discussion and analysis of financial condition and results of operations and financial statements. The Form 10-K report is included because of the similarity of the information required to be contained in the annual reports to shareholders and to the Securities and Exchange Commission, and in the interest of providing broad disclosure of the activities of Chief to those interested in its affairs. The report on Form 10-K has been neither approved nor disapproved by the Securities and Exchange Commission nor has the SEC passed upon its accuracy or adequacy.

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Board of Directors

James Callery

*Investments (Primipally Oil,
Gas and Farming)*

Edward R. Schwartz

Treasurer and Secretary of Chief; Sales Consultant

Bradbury K. Thurlow

Financial Consultant

Leonard Weitz

Chairman of the Board and President of Chief

Executive Officers

Leonard Weitz

Chairman of the Board and President

Edward R. Schwartz

Treasurer and Secretary

Manager Mining Properties

Adren Underwood

TRANSFER AGENT & REGISTRAR

*FIRST INTERSTATE BANK OF CALIFORNIA
TRUST DIVISION
26610 West Agoura Road
Calabasas, California 91302*

AUDITORS

*Deloitte Haskins & Sells
One World Trade Center
New York, N.Y. 10048*

ANNUAL MEETING OF SHAREHOLDERS

The 1987 meeting of shareholders will be held later this year. Shareholders will receive notice and proxy material prior to the meeting.